LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6138 **DATE PREPARED:** Nov 30, 2001
BILL NUMBER: HB 1172 **BILL AMENDED:**

SUBJECT: ICHIA Fee.

FISCAL ANALYST: Alan Gossard
PHONE NUMBER: 233-3546

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill requires insurers that do business in Indiana and that pay the Insurance Premium Tax to pay an Indiana Comprehensive Health Insurance Association (ICHIA) fee with a five-year phase-in period. The bill authorizes an insurer that pays the ICHIA fee to take a tax credit for the full amount of the ICHIA fee. The bill also exempts special purpose assessments, including the ICHIA fee and the ICHIA assessment, from Indiana's retaliatory insurance provisions.

Effective Date: January 1, 2002 (retroactive).

Explanation of State Expenditures: The Department of State Revenue and the Department of Insurance could incur additional administrative expenses associated with changing tax forms, instructions, and computer programming. It is expected that these entities could absorb any additional costs using existing staff and resources.

Explanation of State Revenues: *Summary:* Revenue collected from the new fee will be used by the Indiana Comprehensive Health Insurance Association (ICHIA) to help offset the cost of providing health insurance coverage to those who qualify under the Association's policies.

This bill requires insurers paying the Premium Tax to pay an annual ICHIA fee. The fee would be assessed on the gross value of premiums written in Indiana, less certain allowable deductions. The fee would be phased in from 0.1% of gross premiums in CY 2001 to 0.7% in CY 2005 and after. (The fee is effectively equal to the amount that the insurer's Premium Tax liability was reduced by the rate phase-down provided in P.L. 144-2000.)

The fee is estimated to generate the following revenue for the ICHIA program:

FY 2002	$ 4.3 M
FY 2003	$ 12.9 M
FY 2004	$ 17.1 M
FY 2005	$ 21.5 M

Companies paying this fee would be entitled to a dollar-for-dollar tax credit against their current tax liability under the Insurance Premium Tax, Corporate Gross Income Tax, Corporate AGI Tax, and SNIT. If all the companies paying the fee choose to take the tax credit, the state General Fund would be reduced by an amount equal to the revenue shown in the table.

Because the ICHIA Fee will be paid by all foreign and some domestic insurance companies (rather than HMOs), most, if not all, of the fee probably will be able to be recouped by the insurance companies through the available tax credits resulting in a greater percentage of the net ICHIA losses being assumed by the state. The additional state revenue expenditures as a result of this bill are estimated to be about $1.7 M in FY 2002, $4.3 M in FY 2003, and $5.7 M in FY 2004.

ICHIA Background Information: ICHIA is the high-risk insurance program offered by the state. ICHIA is funded through premiums paid by individuals obtaining insurance through ICHIA, by assessments to member companies (insurers, health maintenance organizations, and others that provide health insurance or health care coverage in Indiana), and the state General Fund. To be eligible, Indiana residents must show evidence of: (1) denied insurance coverage or an exclusionary rider; (2) one or more of the "presumptive" conditions such as AIDS, Cystic Fibrosis, or Diabetes; (3) insurance coverage under a group, government, or church plan making the applicant eligible under the federal Health Insurance Portability and Accountability Act (HIPAA); or (4) exhausted continuation coverage (e.g., COBRA). Premium rates must be less than or equal to 150% of the average premium charged by the five largest individual market carriers.

The net losses of ICHIA (the excess of expenses over premium and other revenue) are made up by assessments on member insurance carriers. Assessments are imposed in May and November each calendar year. The assessment is imposed in proportion to each member's respective share of total health insurance premiums received in Indiana during the year. Members may, in turn, (1) take a credit against Premium Taxes, Gross Income Taxes, Adjusted Gross Income Taxes, Supplemental Corporate Net Income Taxes, or any combination of these taxes; or (2) include in the rates for premiums charged for their insurance policies amounts sufficient to recoup the assessments. The amount of assessments that are recouped by insurance carriers through tax credits or premium increases is not known at this time.

The following assumptions were used to develop a base scenario for the ICHIA program:

(a) An enrollment level of 7,795 (based on the September 2001 enrollment).
(b) Average premium paid by participants of $412 per month, or $4,944 per year (July 2001).
(c) Program cost per participant of $10,038 (2000).
(d) Program cost inflation of 4.5% per year (CPI-U for Medical Care).
(e) No enrollment growth through 2003.
(f) No premium growth through 2003.
(g) 67.5% of tax credits can be utilized by members (based on a survey conducted by Outsourced Administrative Systems, administrator of ICHIA). [Note: The fiscal estimates provided are very sensitive to this assumption. However, no other estimates for the ability to utilize these tax credits has been found at this time.]

The base scenario from these assumptions would result in total program costs of $91 M in FY 2003; total premiums paid by participants of $39 M; and an estimated net program loss of $52 M to be made up by member assessments. Of this amount, an estimated 67.5% of the total assessments could be recouped in the form of tax credits. With these assumptions, the state would ultimately contribute about $35 M, or 38% of the total program cost, the Association members would contribute about $17 M, or 19% of total costs, and program insureds would contribute about $39 M through premium payments, or 43% of total program costs. (This cost estimate is an estimate for FY 2003 only. These costs represent ongoing costs that would occur annually, and the costs would change in future years with inflation, enrollment changes, etc.)

Based on the assumptions above, with a net program loss of $52 M, ICHIA fee income of $4.3 M (assumed to be fully recouped by tax credits), and 67.5% of the balance of $47.7 M being recouped by tax credits, the ultimate cost to the state would be $36.7 M (representing an increase of $1.7 M for FY 2002).

The following year, with fee income of $12.9 M (assumed to be fully recouped by tax credits), and 67.5% of the balance of $39.1 M being recouped by tax credits, the ultimate cost to the state would be $39.3 M (representing an increase of $4.3 M for FY 2003). Using the same assumptions, the increase in state contribution for FY 2004 is estimated to be an additional $5.7 M.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Indiana Comprehensive Health Insurance Association, Department of Insurance, Department of State Revenue.

Local Agencies Affected:

Information Sources: